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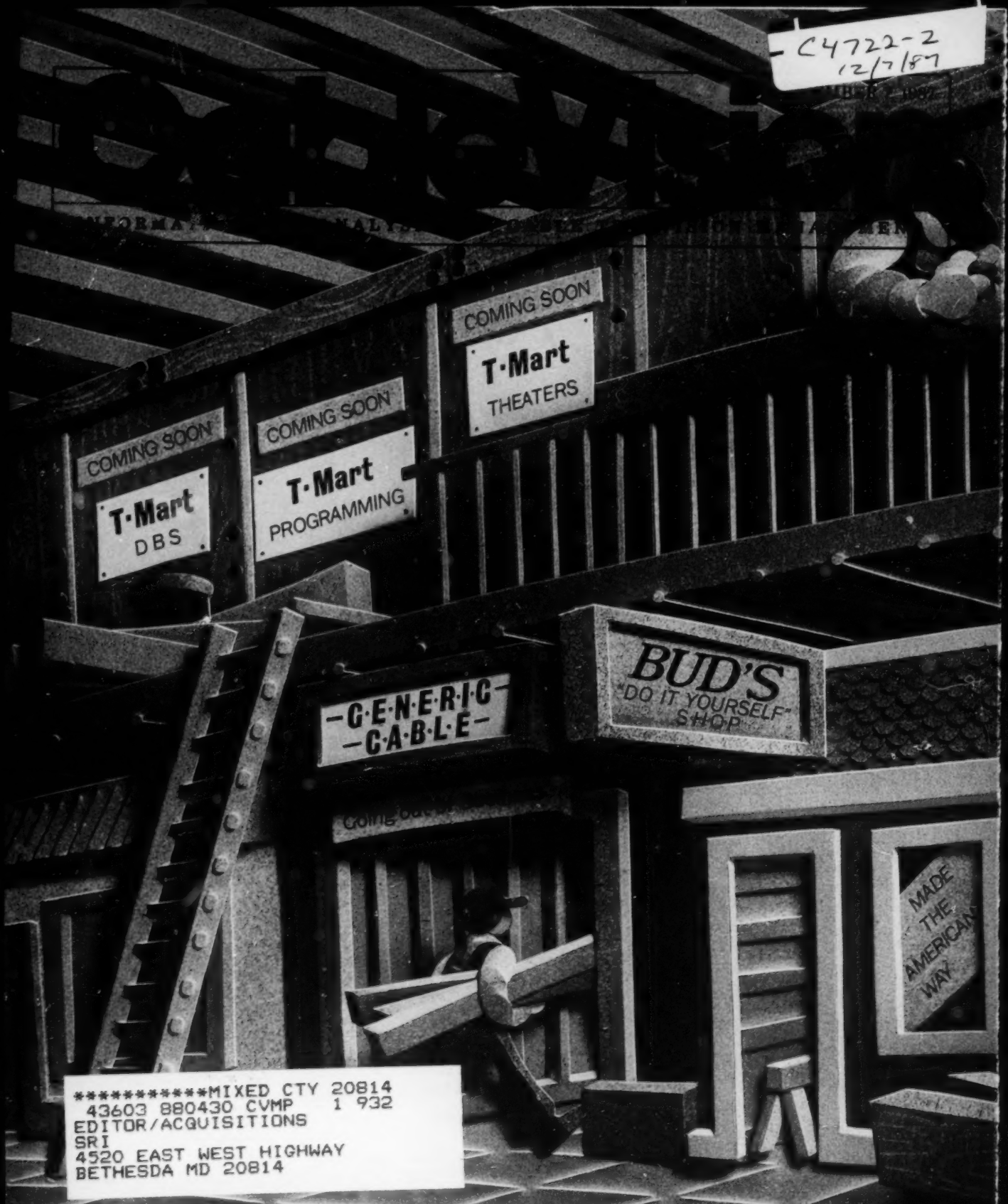

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Logistics for the long haul: hard sell with a soft touch

CableVision

FRONT LINE

A piece of Showtime 18
Increasing Showtime's distribution is the key to assuring its future, and Viacom thinks it could meet that goal by following a well-beaten path: Spin off chunks to operators.

Merger talks in PPV 18

Viacom's Frank Biondi confirms, as do other principals involved, that serious talks are being held concerning a possible merger or other joint ventures by Viewer's Choice, Request TV and Home Premiere Television.

Tracking deregulation 22
The average subscriber's monthly bill has gone up a modest $1.45 since deregulation kicked in, says the National Cable Television Association based on a survey of hundreds of systems.

Doubling your money 26

TBS signs a $50 million, two-year deal with the NBA, twice what it paid for its current contract, but pivot man Robert Wussler says higher rights fees won't mean a doubling of ad prices.

Gore bill advances 26
Legislation by presidential hopeful Sen. Albert Gore, D-Tenn., mandating third-party access to cable programming, clears a Senate committee, but insiders say the bill's sleeper is an expected amendment outlawing bulk discounting

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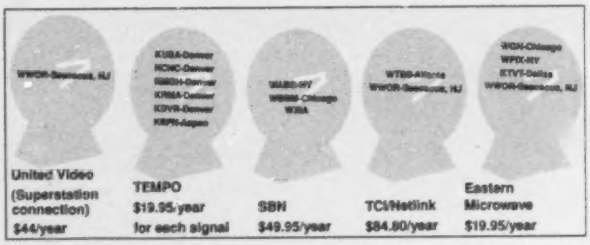
Third and long for college football 56
Fall Saturdays once were predictable: Viewers settled back with ABC or CBS to watch college football. But the networks apparently have fumbled away that franchise to strong syndication packages and cable's significantly improved field position. But experts say part of the audience still is unaccounted for.



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Cable and Hollywood finally find something to agree upon: A legislative proposal to extend cable's compulsory license to cover the retransmission and sale of scrambled superstations to TVRO owners, at 12 cents a pop. Is this the opening for a backyard revival?

Jockeying over high-definition TV 74
The Federal Communications Commission is exploring the future of HDTV and—hey, wait a minute here—doesn't seem to be considering the large role that cable could play in delivering an enhanced picture. The NCTA is getting angry while everyone else grows impatient.

BUSINESS AND FINANCE

Desperately seeking safety in LPs 127
You've heard all the stock market jokes, about the pigeon and the Yuppie stockbroker and which one can or can't make a deposit on a BMW. But this is no joke: Cable limited partnerships are making a comeback, fueled by nervous investors searching out safe havens to ride out an uncertain economy.

LOGISTICS FOR THE LONG HAUL

COVER STORY

MSOs' aggressive strategies for the '90s and beyond 82

Behind them, competitors are nipping at their heels. Ahead lies the distinct possibility of strengthening their hold over television. With those givens, it shouldn't be surprising that MSOs are making some gutsy decisions on strategies for the long-haul, including a grab for program exclusivity. Topping this new list of priorities are the hard sell and the soft touch.

—Cover illustration by Chris Butler.

FORUM

Learning to live with fiber 30

Yes, it's out there and it's coming to eat cable's lunch if the industry passively rests on its coaxial laurels, writes Jim Chiddix of American Television and Communications. But steps can be taken to adapt to a new technological day.

INTERNATIONAL

Sizing up opportunities in Europe 112

The big thaw in European telecommunications is well underway, and new players are rushing across the pond to search out business opportunities. But American cable executives need to do their homework before hoping aboard the Concorde, and the lessons start here.

THE WESTERN SHOW

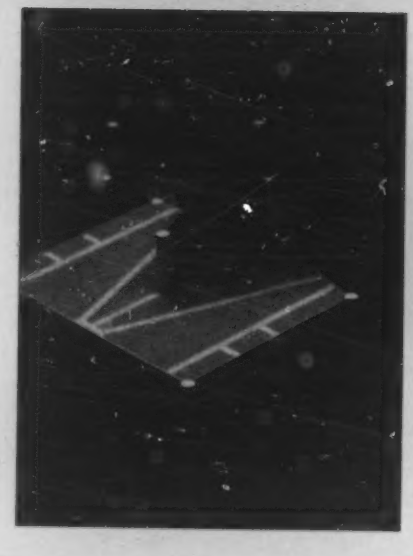
Seeing it all in Anaheim 116

The more than 9,000 cable executives walking the floor at the 19th Western Cable Show in Anaheim should find much to tempt their pocketbooks. At least two manufacturers plan to introduce a new line of converters and several new distribution products will make their debut.

BOOTH GUIDE

A map of the floor 122

With more than 200 exhibitors showing their wares, foot-weary conventioneers need a map to show the way. A complete list of exhibitors and where they can be found can save many steps.



BUSINESS AND FINANCE

Investment strategies 130

There's some real money moving around within major MSOs, and managing that horde for optimum return has become a top priority. Those decisions, more than anything else, reflect unique corporate philosophies.

Between the Lines

MSOs view the future and opt to play offense

It seems that as long as there has been a cable industry, people have made predictions about what cable television would look like and act like when it grew up. These predictions have gone through some fairly routine stages, typically as extrapolations from coaxial technology's latest advancements. The trick to predicting what cable would become, it seems, was like voting in Chicago: Do it early and often.

With increases in channel capacity came the predications painting cable as a narrowcasting medium offering a channel for every taste. Then interactive addressability prompted various seers to describe a world in which everyone sat at home, punched buttons on the remote control and had all manner of goods and services delivered to their door. In its spare time the cable would ward off burglars and read the water meter, when it wasn't occupied with killing Hollywood.

But now something that might truly be called a mature cable industry is beginning to show itself, and that picture is captured in surprising detail by West Coast Bureau Chief Fred Dawson in his Cover Story for this issue. Beginning on page 82, MSO chief executives and their key planners divulge strategies that, taken as a whole, lead one to believe that the industry is turning into a business that would not be unfamiliar to a young William Paley.

It seems clear from a close reading of this important work that the MSO agenda for the waning days of this decade and the early years of the 1990s revolves around three major drives: To become the dominant video delivery system with penetration at 70 percent or better; to exert exclusive distribution rights to most if not all cable programming; and to deliver only that programming which produces respectable ratings.

The mature cable industry, then, would appear to closely resemble the broadcast model that Paley perfected with CBS, except with a lot more hours to fill.

Attaining 70 percent penetration seems a given in light of cable's new-found ability to market its product. Little controversy there. But not so for obtaining program exclusivity or kicking off programmers with puny ratings. It should go without saying that MSOs cannot realistically hope to exert exclusivity to cable programming when the compulsory license denies the same privilege to local broadcasters. One infers from the comments of executives in Dawson's piece that it might not be such a bad trade for the industry's long-term interests: Fewer reruns of *M*A*S*H* on distant signals for the bragging rights to HBO.

And the talk about carrying only those stations and programming networks that command significant viewership also raises some red flags. It may be reading too much into the comments of executives quoted, but this view may sound the retreat from the cable-as-diversity theme that continues to play so well in Washington. At the least it signals operators' unwillingness to continue adding capacity simply because more programming services launch.

Whatever one reads from the strategies discussed, it is clear that MSOs, sensing they in fact are in a mature business, have chosen to play offense rather than defense.

—Steve Tuttle
Executive Editor

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December 7, 1987
Volume 12, Number 32

ITCI
INTERNATIONAL THOMSON COMMUNICATIONS INC

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CableVision (USPC 547-410) (ISSN 0361-8374) is published biweekly by International Thomson Communications Inc., 600 Grant Street, Suite 600, Denver, Colorado 80203 -or- P.O. Box 5208-TA, Denver, CO 80217. Dec. 7, 1987, Volume 12, Number 32. Subscription price: 1 year, $46.00; 2 years, $82.80. Outside USA 1 yr.-$124, 2 yr.-$205, 3 yr.-$274. PREPAYMENT IN U.S. FUNDS ONLY! Second-class postage paid at Cleveland, Ohio. POSTMASTER: Please send address changes to, *CableVision*, P.O. Box 5208-TA, Denver, Colorado 80217.

ABP BPA

Report downplays rate increases

NCTA study puts average increase in monthly bills at $1.45 since deregulation

By John Wolfe

WASHINGTON—The average cable subscriber's monthly bill increased just 6.7 percent in the first six months following federal rate deregulation, according to a National Cable Television Association-sponsored survey of nearly 600 cable systems serving 16 percent of the nation's cable homes.

NCTA, working with Arthur Andersen and Co., prepared the report in anticipation of upcoming House Telecommunications Subcommittee oversight hearings on how the cable industry has fared in the wake of the 1984 Cable Act. Those hearings likely will not convene until early next year.

According to the study, previewed by NCTA board members on Nov. 16 and publicly released Nov. 23, basic rates have increased an average 10.6 percent, or $1.26, since last December, but have been offset by an average 2.5 percent decrease in rates for premium services. As a result, average monthly total revenue per subscriber grew by 6.7 percent, from $21.59 to $23.04, NCTA said.

The report confirms what many cable officials predicted would occur. As basic rates went up, many operators eliminated multiple tiers and instead offered an expanded basic service. The number of basic service channels received by the average subscriber increased by 5.9 percent, from 27.3 to 28.9 channels, NCTA said.

For the study, NCTA mailed surveys to 2,577 systems chosen at random; 598, or 23 percent, responded. NCTA said the response represented a "high return rate for a mail survey of this complexity."

But cable adversaries were quick to question NCTA's results. "Their study does not seem to comport with the numbers anywhere else," claimed Cynthia Pols, legislative counsel to the National League of Cities. A recent NLC survey found that rates increased by 27 percent, while Paul Kagan Associates puts the figure at approximately 24 percent, she noted.

"I don't think it will have too much of an impact" on Capitol Hill, Pols predicted. "Too many people will question its validity," she explained, claiming that many operators may not have responded to NCTA's survey because they did not want to present an unfavorable picture to Congress.

"We urged that all systems respond no matter what they had done," countered Cynthia Brumfield, NCTA vice president, research and policy analysis.

NLC's survey "was very different from ours" because it focused only on systems which raised rates without offering additional channels, another NCTA official retorted. The official noted that NCTA's results closely mirror those of the Bureau of Labor Statistics, which would "be much more neutral" than the League. BLS reported a 5.3 percent increase in the average price of cable service for the first six months of 1987.

NCTA's results also suggested that the rate increases "were very well accepted by cable subscribers," Brumfield maintained. Both the number of homes passed by cable and the number of subscribers increased by 3.3 percent from December to June, according to the study, while the penetration of subscribers to homes passed remained constant at 56.7 percent.

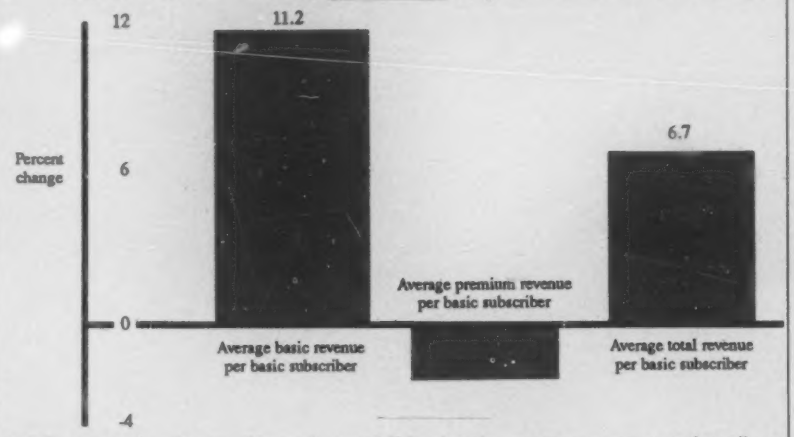
Also, basic and premium churn, "which can be considered measures of customer satisfaction with cable, have declined since deregulation went into effect," NCTA said. The average annual basic churn rate reported by participating systems dropped from 20 percent in 1986 to 18.8 percent in 1987.

Many industry officials had claimed that the freedom to raise basic rates would take the pressure off artificially high-priced premium services, and according to the survey, the pay services are rebounding. Brumfield said she was surprised by the "incredible resurgence in premium network subscriptions" in the six months after rate deregulation. Among responding systems, the total premium units sold grew by 3.7 percent, according to the study.

Moreover, the pay-to-basic ratio, which has declined industry-wide over the past couple of years, increased from 81.6 percent to 82 percent for participating systems, NCTA said.

NCTA also noted that since deregulation, the cable industry's investment in plant, equipment and customer service has increased. ■

Percentage change between December 1986 and June 1987 in average revenue per basic subscriber



NCTA reports that although monthly basic revenue per subscriber increased by approximately 11 percent, premium monthly revenues per subscriber dropped by 2.3 percent. Total monthly revenues per subscriber, reflecting all revenues from subscriber services, grew by 6.7 percent, from $21.59 to $23.04.

Film product comparison-January

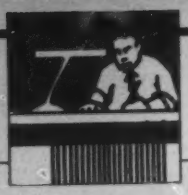
Film	Pay Networks					Distributor
48 Hrs.	*HBO		*TMC		(MAX)	Paramount
8 Million Ways To Die	(HBO)				MAX	Vestron
A Raisin in the Sun					*MAX	Columbia
A Streetcar Named Desire					MAX	Worldvision
About Last Night...	(HBO)				*MAX	Tri-Star
Above and Beyond					MAX	MGM/UA
Address Unknown					MAX	Columbia
Aliens	(HBO)		TMC		(MAX)	20th Century-Fox
All the Brothers Were Valiant		ST				MGM/UA
All the King's Men					MAX	Columbia
All the Right Moves			TMC			20th Century-Fox
American Ninja		*ST	(TMC)			Cannon
Amerous Adventures of Moll Flanders		ST				Paramount
An American in Paris		(ST)	(TMC)	(DIS)	MAX	MGM/UA
Apocalypse Now		ST			MAX	MGM/UA
Armed Response	(HBO)				MAX	Cinetel
Assassination, The			TMC			Cannon
Assisi Underground		*ST	TMC			Cannon
At Last, At Last		ST	(TMC)			J. Brenner
Author! Author!					MAX	20th Century-Fox
Aviator, The					MAX	MGM/UA
Bad Medicine		*ST	TMC		(MAX)	20th Century-Fox
Battle Circus		ST				MGM/UA
Best of Times, The	HBO		(TMC)		(MAX)	Universal
Big Chill, The					MAX	Columbia
Big Trouble in Little China		ST			(MAX)	20th Century-Fox
Blind Date	HBO				(MAX)	Wescom
Boarding School					MAX	Paramount
Born American	(HBO)		(TMC)		MAX	Cinema Group
Boy Called Nuthin', A				DIS		Disney
Boys Next Door, The					MAX	New World
Brazil		ST			(MAX)	Universal
Breaking All The Rules	HBO				(MAX)	New World
Brighton Beach Memoirs	(HBO)	*ST	*TMC			Universal
Broken Promise		ST	(TMC)			Viacom
Bullies	(HBO)	ST	(TMC)			Universal
Bye Bye Birdie	HBO					Columbia
Cat Ballou	HBO					Columbia
Cat From Outer Space				DIS		Disney
Catch-22			TMC		MAX	Paramount
Charley and the Angel				*DIS		Disney
Children of a Lesser God		(ST)	*TMC			Paramount
Chisum		(ST)	(TMC)		*MAX	Warner Bros.
Chosen, The	HBO				(MAX)	20th Century-Fox
Christmas Visitor				*DIS		Disney
Class of Nuke'em High		ST	(TMC)			Troma
Cobra	HBO				(MAX)	Warner Bros.
Cocoon	HBO	*ST	*TMC		(MAX)	20th Century-Fox
Color of Money, The		*ST	*TMC			Touchstone
Compromising Positions		ST	TMC			Paramount
Concrete Jungle, The		(ST)	TMC			Lorimar
Country		(ST)	TMC			Touchstone
Cowboys, The			(TMC)		MAX	Warner Bros.
Crimes of the Heart		ST	TMC			DEG
Critical Condition		ST	TMC			Paramount
Cyclone					MAX	Cinetel
Death of a Soldier	HBO					Scotti
Death on the Nile	(HBO)		*TMC			Paramount
Death Wish 3		ST	*TMC			Cannon
Deja Vu					MAX	Cannon
Desert Bloom	HBO				(MAX)	Columbia
Don't Go Near the Water			(TMC)		MAX	MGM/UA
Dot and the Whale				DIS		Cori Films
Down and Out in Beverly Hills			*TMC			Touchstone
Down Argentine Way				DIS		20th Century-Fox
Dr. Strangelove or How I Learned					MAX	Columbia
Dragonslayer	(HBO)	(ST)	(TMC)	*DIS		Paramount
Dream and the Triumph		ST				Atlantis
Dream Lover	(HBO)		(TMC)		*MAX	MGM/UA
El Dorado			TMC		MAX	Paramount
Eliminators			*TMC			DEG
Except for Me and Thee				*DIS		Lorimar
Eyes of a Stranger					MAX	Warner Bros.
Eyes of the Amaryllis				DIS		Coe Films
Fail-Safe					MAX	Columbia
Fantasy Film Worlds				DIS		Leibovit Productions
Fast-Walking		*ST				Lorimar
Fearless Vampire Killers			TMC			MGM/UA
Felicity		ST				Satori

Film	Pay Networks					Distributor
Fifth Missile, The		ST				Turner
Fire With Fire		(ST)	TMC			Paramount
Firewalker		*ST				Cannon
Fixer, The		ST				MGM/UA
Fly, The	(HBO)	(ST)	(TMC)		*MAX	20th Century-Fox
Free Spirit			TMC			J. Brenner
From Hell To Texas				DIS		20th Century-Fox
Gambler, The			TMC			Paramount
Garbo Talks		ST				MGM/UA
Gift of Life, The	HBO					Televentures
Glass Bottom Boat, The			*TMC	(DIS)	(MAX)	MGM/UA
Gnomes Great Adventure	(HBO)	ST				Miramax
Golden Child, The		ST	TMC			Paramount
Gremlins, The	HBO				(MAX)	Warner Bros.
Gorky Park			*TMC		(MAX)	Orion
Grambling's White Tiger				DIS		Interplanetary
Great Wall is a Great Wall, The					MAX	Orion
Great Wall, A			TMC			Orion
Groove Tube, The	HBO				(MAX)	Pickman
Guess Who's Coming to Dinner?					MAX	Columbia
Gulliver's Travels				*DIS		Miramax
The Hand					MAX	Warner Bros.
Happy Hooker, The		(ST)	TMC			Cannon
Hardbodies	(HBO)	(ST)	TMC		(MAX)	Columbia
Haunted Honeymoon		*ST	(TMC)		(MAX)	Orion
Haunted School, The				*DIS		Revcom
Head Office	HBO				(MAX)	Silver
Hellcats of the Navy					MAX	Columbia
Here Comes Mr. Jordan					MAX	Columbia
Highlander	(HBO)	(ST)	TMC			20th Century-Fox
Hobson's Choice	HBO					Televentures
Holcroft Covenant, The	(HBO)				MAX	Thorn-Emi
Home in Indiana				DIS		20th Century-Fox
The Homestretch				DIS		20th Century-Fox
Hot Target	HBO					Crown Int'l
Hour of the Assassin					MAX	MGM/UA
House of the Rising Sun	*HBO					Fox/Lorber
Howard the Duck	HBO	ST			(MAX)	Universal
Howling II	HBO				(MAX)	Hemdale
I Own the Racecourse				DIS		Miramax
I Walk Alone		ST				Paramount
I'd Climb the Highest Mountain					MAX	20th Century-Fox
In Search of a Golden Sky	*HBO					TMS Pictures
In the Good Old Summertime				DIS	MAX	MGM/UA
In the Shadow of Kilimanjaro					MAX	Scotti Bros.
Indiana Jones and the Temple of Doom	HBO				MAX	Paramount
Invasion U.S.A.		(ST)	*TMC			Cannon
Jake Speed	(HBO)				MAX	New World
Jewel of the Nile	HBO		TMC		(MAX)	20th Century-Fox
Jo Jo Dancer, Your Life is Calling	(HBO)				MAX	Columbia
Julia		*ST			(MAX)	Essex
Just Between Friends	(HBO)		*TMC		MAX	Orion
Just the Way You Are		ST	TMC		MAX	MGM/UA
Karate Kid Part II	HBO				(MAX)	Columbia
King Kong Lives		*ST	*TMC			DEG
King Solomon's Mines		ST	(TMC)			Cannon
Kismet		ST				MGM/UA
Klute	HBO	(ST)			(MAX)	Warner Bros.
Krush Groove	(HBO)				MAX	Warner Bros.
Last Detail, The					MAX	Columbia
Learning Tree, The	HBO					Warner Bros.
Legend	(HBO)	(ST)	(TMC)		*MAX	Universal
Let's Make a Dirty Movie					MAX	Satori
Letter to Brezhnev			TMC			Circle
Light Blast		*ST	(TMC)			Lorimar
Little Shop of Horrors	HBO					Warner Bros.
Liz		ST				Satori
Lone Star		ST				MGM/UA
Lookin' To Get Out			*TMC		MAX	Lorimar
Loose Screws		*ST	(TMC)		*MAX	Concorde
Low Blow	HBO					Crown Int'l
Lucky Lady			TMC			20th Century-Fox
Macaroni		ST	TMC			Paramount
Malibu Bikini Shop	(HBO)		TMC			New Century
Malibu Express			(TMC)		MAX	Malibu Bay
Man From Button Willow		ST				Lee Haber

Film	Pay Networks						Distributor
Man Who Came to Dinner		(ST)		DIS			MGM/UA
Man Who Corrupted Hadleyburg				DIS			Bedford
Manhattan Project, The	(HBO)	(ST)	TMC		(MAX)		20th Century-Fox
Manhunter		(ST)	TMC				DEG
Many Adventures of Winnie the Pooh				DIS			Disney
Marie: A True Story		ST					TBS
Maximum Overdrive		ST					DEG
Men of the Fighting Lady			TMC				MGM/UA
Miracles	HBO				(MAX)		Orion
Missing in Action	HBO				(MAX)		Cannon
Mission Hill					MAX		Paramount
Missionary, The	HBO						Columbia
Misty				DIS			UPA Production
Misunderstood	HBO		(TMC)	DIS	(MAX)		MGM/UA
Modern Girls		(ST)	*TMC				Paramount
Montgomery to Memphis					MAX		Fox/Lorber
Mosquito Coast, The					MAX		Warner Bros.
Movers & Shakers	HBO				(MAX)		MGM/UA
Murphy's Law		(ST)	*TMC				Cannon
Rumplestiltskin			TMC				Cannon
Run, Cougar, Run				DIS			Disney
Running Out					MAX		Televentures
Running Scared	*HBO				(MAX)		MGM/UA
Ruthless People		(ST)	*TMC				Touchstone
Saint Jean					MAX		Hal Roach
Saving Grace	*HBO				(MAX)		Columbia
Secrets of Love					MAX		Dolmatch
Serpico					MAX		Paramount
Seven Brides for Seven Brothers		ST	(TMC)		(MAX)		MGM/UA
She Wore a Yellow Ribbon					MAX		RKO
She's Gotta Have It		(ST)			MAX		Island
Shipwreck!		ST			(MAX)		Warner Bros.
Shoes of the Fisherman		ST			MAX		MGM/UA
Short Circuit	(HBO)				*MAX		Tri-Star
Sid and Nancy			TMC				Goldwyn
Silent One, The	HBO	(ST)	TMC				Satori
Sinbad and the Eye of the Tiger	HBO						Columbia
Six Weeks			*TMC				King Features
Slow Burn			TMC				Showtime
Slugger's Wife, The	(HBO)				MAX		Columbia
Smoke				*DIS			Disney
Smooth Talk					MAX		Int. Spectrafilm
Some Kind of Hero			TMC				Paramount
Spiral Staircase, The					MAX		Warner Bros.
Stalag 17			*TMC		(MAX)		Paramount
Star Spangled Girl			TMC				Paramount
State Fair				DIS	(MAX)		20th Century-Fox
Stephen King's Silver Bullet		ST	(TMC)				Paramount
Still of the Night					MAX		MGM/UA
Stoogemania		(ST)	TMC				Atlantic
Streetwalkin'			*TMC		MAX		Concorde
Summer of '42			(TMC)		MAX		Warner Bros.
Summer Stock				DIS	MAX		MGM/UA
Sunday Dinner For a Soldier					MAX		20th Century-Fox
Sweet Liberty		(ST)	*TMC		*MAX		Universal
Tai-Pan		ST					DEG
The Tamarind Seed	HBO						ITC
Target	*HBO				(MAX)		Warner Bros.
Tea and Sympathy					MAX		MGM/UA
The Nasty Heart					MAX		Warner Bros.
The Stuff					MAX		New World
These are the Damned					MAX		Columbia
Mussolini: Part I	*HBO						Rai Radio
Mussolini: Part II	HBO						Rai Radio
My Side of the Mountain				*DIS			Paramount
Never Too Young to Die			*TMC				Goldwyn
Nightmare on Elm Street Part 2	(HBO)				MAX		New Line
No Mercy	HBO						Tri-Star
Odd Jobs	HBO						Silver
The Omega Syndrome					MAX		New World
On the Double				DIS	(MAX)		Paramount
Opposing Force	HBO				(MAX)		Orion
Ordinary People		*ST					Paramount
Outlaw Josey Wales, The		(ST)	*TMC		(MAX)		Warner Bros.
Over the Top	HBO				MAX		Warner Bros.
Owl and the Pussycat	HBO						Columbia
P.O.W. the Escape		(ST)	TMC				Cannon
Paper Moon			TMC		MAX		Paramount
Pat and Mike			TMC		MAX		MGM/UA
People Against O'Hara			TMC				MGM/UA
Pink Chiquitas, The			*TMC				20th Century-Fox
Pirates of Tortuga				*DIS			20th Century-Fox
Platypus Cove		ST	(TMC)				Miramax
Play It Again, Sam			TMC		MAX		Paramount
Playing For Keeps	(HBO)		*TMC				Universal
The Point				*DIS			Murakami/Wolf
Police Academy 3	(HBO)				*MAX		Warner Bros.
Poltergeist II	HBO				(MAX)		MGM/UA
Postman Always Rings Twice		*ST			(MAX)		Lorimar
Power	HBO				(MAX)		Lorimar
Prince and the Pauper				DIS			Disney
Promises in the Dark					MAX		Warner Bros.
Radio Days		ST	TMC		MAX		Orion
Rainbow Brite	HBO						Warner Bros.
Rascals and Robbers				DIS			Televentures
The Ratings Game			TMC				Imagination
Raw Deal		(ST)	TMC				DEG
Red Badge of Courage		ST		(DIS)	(MAX)		MGM/UA
Red Dawn	(HBO)	ST	(TMC)		MAX		MGM/UA
Red Line 7000			TMC				Paramount
Return of the Antelope				*DIS			Granada TV Int'l.
Return of the Jedi	(HBO)	(ST)			*MAX		Lucasfilm
Return of the Soldier					MAX		Brent Walker
Rich and Famous	HBO		(TMC)				MGM/UA
Richard Pryor Here and Now		(ST)	TMC		(MAX)		Columbia
Rings on Her Fingers					MAX		20th Century-Fox
Rogue Cop			TMC				MGM/UA
Rollover					*MAX		Warner Bros.
They Only Kill Their Masters			TMC		MAX		MGM/UA
Thunder Run			TMC				Cannon
Tiger Makes Out, The					MAX		Columbia
Tingler, The					MAX		Columbia
To the Shores of Tripoli				DIS			20th Century-Fox
Toby McTeague				DIS			Spectrafilm
Tom Sawyer, Detective				DIS			MCA TV/Paramount
Trading Places		(ST)	*TMC				Paramount
Trouble in Mind	HBO		(TMC)		(MAX)		Columbia
True Grit				DIS	MAX		Paramount
Tuck Everlasting				*DIS			Coe Film
The Turning Point	HBO	(ST)	TMC				20th Century-Fox
Twice in a Lifetime		ST	*TMC				Roberts
Two Against the Artic				*DIS			Disney
Under Fire	HBO	ST	(TMC)		(MAX)		Orion
Unico in the Island of Magic				DIS			Sanrio
Violets are Blue...	(HBO)				MAX		Columbia
Waltz Across Texas			TMC				Atlantic
What Comes Around	HBO				(MAX)		Simcom
Where are the Children?	HBO				(MAX)		Columbia
Whiz Kid and the Mystery at Riverton				DIS			Disney
Whoopee Boys, The		(ST)	TMC				Paramount
Wild and Beautiful on Ibiza		ST					K-Pay
Wild Geese II	(HBO)				MAX		Thorn-Emi
The Wild Pony				DIS			Cori
The Wings of Eagles			TMC		MAX		MGM/UA
Wisdom	HBO	ST	TMC				20th Century-Fox
Wise Guys			TMC				TBS
Witch's Sister		ST					Film Gallery
Witness		*ST	*TMC				Paramount
Wizards of the Lost Kingdom	HBO						Worldvision
Wolfen					*MAX		Warner Bros.
Wonder Woman			*TMC		(MAX)		Warner Bros.
World According to Garp					MAX		Warner Bros.
Yankee Doodle Dandy				DIS			MGM/UA
You Light Up My Life	HBO						Columbia
Your Place...Or Mine	HBO						Lorimar
The Zero Boys	HBO				(MAX)		Forminx

Cable Network Legend:
TMC—The Movie Channel
HBO—Home Box Office
DIS—The Disney Channel
ST—Showtime
MAX—Cinemax

- Networks in parentheses indicate carriage in August, September, October, November and/or December.
- An asterisk indicates the film is a carry-over from August, September, October, November and/or December.
- In total, 303 films appear on the January schedules of Home Box Office, Showtime, The Movie Channel, The Disney Channel and Cinemax. Of these titles, during the last six months, none have played on all five services, eleven have played on four of the five services, twenty-seven have played on three, and one hundred and five have played on two of the five services. One hundred and fifty-four titles on the December schedules of these five services were unduplicated in the last six months.
- The motion picture distributor with the most titles is MGM/UA with 37. Paramount with 30, Columbia with 28, 20th Century-Fox with 25, Warner Bros. with 24.



COVER STORY

Positioning cable for the future by making strategic choices today

MSOs face uncertain options for maintaining an enviable marketplace position

By Fred Dawson

Clout—there's no better way to know an aggressive competitor than to point a decibel meter at the clamor rising in his wake.

The cable television industry has clout. And judging by the range of strategies cable operators are pondering to ensure they remain competitive, any decibel meter hanging on the media arena wall a year or two from now could easily end up looking like the one NBC used to measure crowd noise in this year's World Series. By the middle innings of Game 4 in the Minneapolis Metrodome, that device was completely blown.

Cable executives from several top MSOs, sharing their thoughts in a recent series of interviews, mapped out long-term strategies for growing their companies and securing their market positions that lead to two conclusions: With operations rolling along in a well-oiled groove, the subscriber growth momentum looks sure to carry the industry to the 70 percent level over the next four to five years. And at every notch up the penetration scale, the battle to secure market position likely will grow more heated and more controversial.

This market position is an enviable one to be in, easily qualifying for the overused accolade, win/win. In May 1985 the National Cable Television Association issued what was then viewed as a very optimistic report on the industry's future. By 1990, the report prepared by Arthur D. Little said, the subscriber count would hit 48 million, 60 percent of all television households, representing a growth rate of 233,000 customers per month over the five-year span. In actuality, with the subscriber count now at about 44 million, the monthly growth rate from the end of 1984, when there were 34 million subscribers, has been just under 300,000, well ahead of the expected pace.

Of course, as more urban newbuilds completed the first-pass phase of marketing, the monthly pace was expected to tail off, and it has. Arbitron's latest figures on cable penetration indicate that the pace between May and July of this year was about 225,000 new customers per month. But with several cities that participated in the late wave of franchising finally starting to come on line, and with operators reporting higher-than-projected subscriber growth throughout 1987, it may well be that the 225,000 rate will hold. If so, the household penetration by the beginning of 1990 will be at 62 percent with the sub count at 49.6 million, 1.6 million over Little's projection.

Executing strategic decisions requires careful financial planning, backed by bushels of cash. MSO moneymen discuss their key investment thinking, page 130.

To get to 70 percent by the end of 1992, the five-year target many cable executives have set for themselves, would require a gain of another 6.5 million subscribers or so over that early 1990 total, which translates into a growth pace of only 178,000 subscribers per month between early 1990 and the end of 1992. Achieving such numbers will require that operators and programmers sustain the full-court marketing press they currently have underway, but the goal looks reachable, and that's all the reason the MSOs need to keep the heat on.

But if the cable companies are confident that the better-than-projected re-

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sults of their current marketing tactics will carry into the foreseeable future, they also understand that such good fortune will expose them to an ever intensifying lime-green light of envy eminating from all directions. Consequently, they're thinking tough thoughts about what might have to be done to keep would-be intruders at bay.

The question is, will the tactics work? Is it really possible that this ragtag band of media outsiders is headed for the market dominance that a 70 percent penetration rate inevitably portends? Has cable become the dream enterprise all business leaders long for, the win/win situation in perpetuity?

Getting at an answer requires an analysis of how the industry approaches its growth challenges, structurally and operationally, and an inquiry into the issues surrounding the competitive threat, especially in light of how the MSOs view that threat and their options for dealing with it. A key issue appears to be whether the symbiotic relationship that has made programmers and operators partners-in-arms can be preserved in a way that secures the operators as exclusive purveyors of the product to the lion's share of the nation's households.

Concentration, both real and imagined

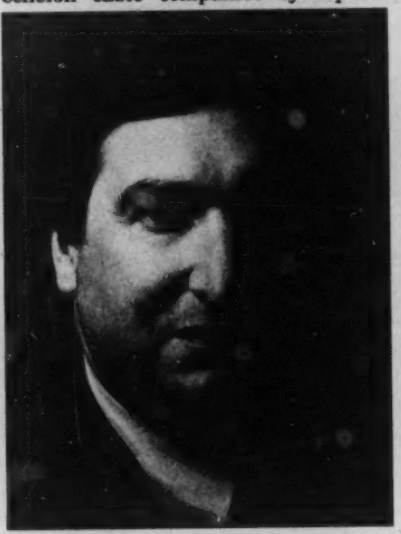
The past five years have produced an aura of tumult on the operations side of the business. Acquisitions, consolidation and integration have shaped perceptions of the trendline. But the MSO lineup may be more remarkable for its stability over the past five years than for its shifts.

At the end of 1982 the subscriber count stood at 28.2 million, with 15.6 million or 55 percent of that total held by the top 20 MSOs. Five years later, with the sub count at 44 million, 25.3 million or 59 percent of the total falls to the top 20, representing an increase in top-20 concentration of only 7 percent.

Similarly slight increases in concentration occur over the same period for the top 10 (from 42 to 45 percent) and the top five (from 29 to 32 percent). These calculations include Heritage, UA Cablesystems and Tele-Communications Inc.'s other majority-held properties as part of the largest MSO, which, including these properties, has gone from an 8 percent market share five years ago to 14 percent today.

As for the players in the upper levels, since late 1982 four out of the top 20 group (Group W, CapCities, General Electric and Liberty) have dropped out of cable operations altogether, and one player that didn't exist then (Paragon, though it is half-owned by American Television and Communications) has entered the top 20. Fourteen of the companies that were in the top 20 five years ago still are.

What all this points up is that the acquisition process has largely been focused in the absorption of lower echelon cable companies by top 20



Jimmy Doolittle

firms simultaneous with the emergence of new lower-echelon players at a pace that keeps the subscriber distribution ratios relatively stable. This process is one that has been going on in cable for decades.

Organizations tailored to fit differing agendas

With 45 percent of the business under the control of the top 10 MSOs, any analysis of operations that focuses on that group overlooks a bigger piece of the pie. But the methodologies employed by these big fish and the results that flow from them set the guidelines for the business. Judging from discussions with executives of these companies, there is widespread consistency in how operators are going about their businesses.

Four years ago, ATC's top executives decided to loosen their control over decision making at the system level just as the second-largest MSO was buying and swapping its way to consolidation over ever larger, ADI-wide systems.

Jimmy Doolittle, executive vice president and COO for ATC, discussed the difference decentralization has made: "When I was president of operations and we were trying to make decisions for all our systems, we would have to make 28 to 30 technical decisions alone on a daily basis. We realized you can't grow the way you need to if things are managed that way."

The same realization hit most other major MSOs at about the same time, with similar results. But if many of the details of day-to-day decision making have been removed from headquarters agendas, the strategic decisions and the nuts and bolts planning at the core of the business remain the purview of senior management, as is clearly evident in the marketing, packaging, pricing and program selection procedures discussed below.

While decentralization and the degrees of headquarter control over decision making have occurred along similar lines from company to company, there has been a great deal of variation in how companies are divided internally. Many, like TCI, have set up divisions by large multi-state geographic regions. Others, companies with a number of large urban systems, established divisions by cities or ADIs, and lumped the remaining, rural systems into national divisions. ATC and Warner Cable are structured this way.

Some firms, like Continental, divide themselves into a large number of divisions, sometimes two or more to a state, with rural and urban systems often included in any one division. And some, like Jones Intercable, rely on factors other than geography or degree of urbanization to define their divisions.

Greg Liptak, president of Jones, noted, "Three years ago, when the company was organized on a geographical basis, it was hard to track the performance of our limited partnership funds and to identify problems that were common to any one fund. A division might be performing great, but there would be trouble with an individual system. And over in another division there'd be another problem system belonging to the same fund. Both divisions could be doing very well on the bottom line, but the fund common to the two systems might be getting into trouble without our realizing it as early as we might. So now the divisions are organized by funds. We might have a fund with a system on the East Coast and one on the West Coast,

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but we discovered the one or two extra hours you spend on the airplane managing over a dispersed group of systems pays off in the long run."

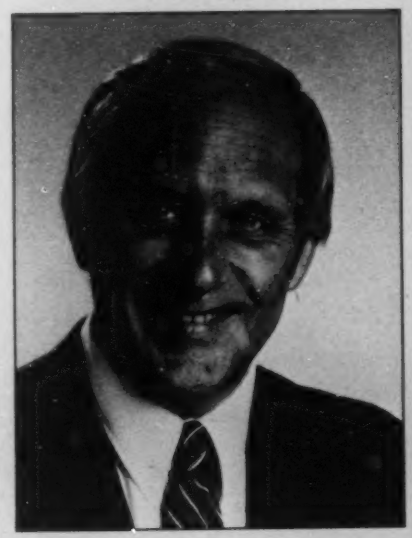
Buying subscribers or growing your own

However they're divided up, though, the cable giants have come to many common conclusions regarding the way to grow their companies. For many if not most MSOs, acquisitions still figure significantly in the equation. Among the leading MSOs, TCI, Continental, Comcast and Jones have been especially aggressive. But more and more operators are inclined to put greater priority on growth through marketing and improved customer service.

Said Trygve Myhren, chairman of ATC: "Growth through acquisitions is not all this business is about. It's always helpful to be able to build your company through acquiring properties that represent good opportunities. For some companies it may provide more leverage when it comes to buying programming, though we're already beyond the size necessary for achieving maximum price advantage.

"But acquiring systems isn't nearly as important to our future well-being as quality operations—things like good customer service, offering good value in our pricing and packaging, keeping the debt-to-subscriber ratio low. What's happened is the publicity surrounding TCI has left the impression that size is the be-all and end-all, and that's just not so."

Some MSOs are shying away from



Greg Liptak

acquisitions out of a reluctance to pay the present system prices. Others are constrained by recent changes in ownership. Viacom Cablevision President John Goddard, noting the constraints flowing from the highly leveraged status of Viacom Enterprises in the wake of Sumner Redstone's takeover, said: "The situation gives us the opportunity to focus more than ever on in-house marketing and improved customer service and penetration. There's only so much you can add to your revenues through pricing. You can't go on taking a $1 rate increase every year. Really, going forward, the greatest leverage we have for adding to the bottom line is through adding new customers."

Jim Cownie, president of Heritage Cable and chairman of the National Cable Television Association, sounds a similar theme. "The big change at

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November 1987
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Heritage (since TCI gained control by backing a management-led buyout) is that we're out of the acquisition market, at least temporarily. Heritage in the past was driven by expansion through acquisitions as a major goal. But now the nature of our balance sheet is such that we're unable to pursue acquisitions. This has had a big impact on our management team, and it's been good in the sense that a lot of us, instead of thinking about the next acquisition, are able to focus on providing our customers the best service possible. Tender love and care of our customers is very important to us."

No matter what the emphasis on acquisitions, MSO executives discussing their priorities inevitably bring up customer service. At Jones Intercable, for example, where the search for new acquisition opportunities never lets up, the company has established a stringent operations policy requiring every department to weigh customer impact before making any important decision. According to John Mathwick, marketing vice president, this includes determining the likely effect on potential as well as existing customers and identifying what opportunities for acquiring new customers are intrinsic to any decision.

Trygve Myhren

"We act as a resource for other departments," Mathwick said of his marketing group. "For example, when engineering is executing a rebuild they'll consult with us on how the contractors should be educated to handle subscriber contacts—what their attitude should be in approaching the customer and what should be said, approaches to digging up the backyard and landscaping when the work is done."

At TCI, Art Lee, vice president of operations, has been spearheading a company-wide effort to identify what should be done to improve customer service. "We're down the road on that," he said. "Now the challenge is implementation."

The implementation is being facilitated by headquarters-level monitoring of how the systems are handling their phone traffic, which Lee said is the area of most concern. Although TCI has vested more autonomy in its five divisions than most MSOs have in their divisions, this is one area where headquarters is taking a very direct role. Some of the larger systems have been supplied with automated phone traffic monitoring devices, Lee said, allowing the divisions to turn in detailed accounts of performance on a monthly basis. "The effort is yielding results."

But if headquarters authority and direction has been essential to the industry's campaign to improve customer service, decentralization and the vesting of more self responsibility at the system and division levels have been equally important to the results of such efforts. Attitude is the key.

Kevin Rorke, an executive vice president at ATC with authority over nine divisions representing 20 percent of the MSO's subscriber base, conceded that the customer service effort has been costly, in terms of dollars spent on telephone systems, training and higher salaries. But, "More important than what you spend are the attitudes of your people. Giving our people more freedom to run their affairs has had a big impact on attitudes. They're our representatives in the community, and they want to be identified with a business that's well received. How they run things determines how people feel about the business they're identified with. Where cable is concerned, a person is in a highly visible business at the community level."

One example of how greater freedom in decision making translates into better relations at the community level is the latitude ATC gives its customer service people to settle disputes over customer credits. "This is a small matter," Rorke said, "but, before, any time a customer had a claim to make,

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Cable's top 20 MSOs—five years of change

1982		1987	
Company	**Basic sub count**	**Company**	**Basic sub count**
TCI	2,200,000	TCI	4,200,000
ATC	2,057,000	ATC	3,500,000
Group W	1,759,000	Continental	1,482,000
Cox	1,227,000	Storer	1,418,000
Storer	1,065,000	Cox	1,404,000
Warner	1,000,000	Warner	1,367,000
Times Mirror	740,000	Comcast	1,200,000
Newhouse	662,000	United	1,110,000
Rogers/UA	662,000	Newhouse	1,029,000
Viacom	609,000	Viacom	1,020,000
Continental	532,000	Heritage	1,019,000
United	517,000	Jones	928,000
Sammons	504,000	Times Mirror	896,000
Telecable	359,000	Sammons	821,000
Capital Cities	308,000	UACI	781,000
General Electric	302,000	CV Systems	741,000
CV Systems	264,000	Paragon	643,000
Heritage	258,000	Century	600,000
Comcast	250,000	CV Industries	585,000
Liberty	245,000	Daniels	561,000
Total	15,590,000		25,307,000
Total industry subscriber base	28,200,000		44,000,000
Percentage of subscribers in top 20	55%		57.5%

The fastest growing MSOs in top 20 (1982-1987)

Biggest volume gains		Percentage	Biggest percentage gains	
TCI	3,800,000*	172%	Cablevision Industries	480%
ATC	1,443,000	70%	Jones Intercable	418%
Comcast	950,000	380%	Century Communications	253%
Continental	950,000	181%	Daniels	229%
Jones Intercable	748,000	418%	Cablevision Systems	182%

*TCI growth figure includes Heritage and UACI. If Heritage were included separately in growth comparisons, it would rank fifth in overall volume of growth, at 761,000, and third in percentage growth, at 295%.

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the issue would have to be passed up the chain of command for a decision at a higher level, irritating the customer every step of the way. Now the person dealing directly with the customer has authority to approve refunds. This not only provides the customer with more timely service; it also gives our representative a deeper involvement in the contact with the customer."

The same sort of headquarter-push, system-pull sharing of the operations mandate characterizes virtually every facet of the MSOs' marketing efforts these days. "In my view of the world," said Comcast Cable President Bob Clasen, "you want to make as many decisions as possible as close as you can to the market level, but you also have to set the window of options and provide the overall sense of direction from the top. What's right for Tupelo, Miss., may not work in Flint, Mich."

In planning the year's marketing operations, Clasen said, headquarters puts together a menu of options that might detail 30 promotions and the mix of tactics that go with them. A few will be designated as musts for all systems, he said, including the national campaigns of certain programmers and the introduction of certain offers, such as price breaks on remotes and extra outlets. But, otherwise, the company's six regional divisions choose what they want from the menu of options within budget parameters that have been negotiated with company management.

The headquarters marketing group, consisting of specialists with such skills as production, copy writing and printing, then supports these choices by generating a large share of the material to be used. According to Clasen, about 70 percent of Comcast's marketing material is centrally produced, which gives a common look to most of the systems' marketing efforts.

Similarly, at Continental, the third-ranking MSO, the headquarters marketing group serves as a resource to the field marketing people, providing consultation on strategy and producing the marketing materials. According to Marketing Vice President Ted Livingston, along with the day-to-day tactical decisions, the field people also are able to choose which programmer campaigns they want to participate in. "We give them advice on which ones to go with," he said, "but they decide, and they also determine the amount of radio or TV broadcast advertising, the level of direct mail support and other elements of the marketing mix. Our role is to provide them with good information based on what other people have experienced."

Such flexibility allows field people to try new things, Livingston noted. For example, broadcast previews of cable programming were initiated at the field level and have caught on among larger systems where Comcast dominates the ADI.

United Cable, ranking right behind Comcast at the No. 8 slot, has set up a national marketing unit to take care of the company-wide campaigns planned by headquarters executives. This represents a somewhat heavier emphasis than many other MSOs have on national projects operated from headquarters, but decentralization and dispersal of authority are well ingrained into the corporate culture, according to Nimrod Kovacs, United's marketing vice president. With only three people devoted to field operations at headquarters, he said, much is left to the discretion of system personnel.

Kovacs said the importance of system people's participation in the planning and decision-making processes shows up not only in the ideas and experience they bring to the table but also in the enthusiasm they have for carrying out strategies. "I'd rather have a good-to-mediocre strategy and excellent execution than great strategies that aren't properly implemented," he said.

As for specific marketing tactics, there is wide agreement that door-to-door sales are still a vital part of the mix, especially for reaching newcomers to a neighborhood or potential subscribers in newly-wired sections. But other tactics have gained much greater shares of the marketing dollar as the need for troops in the first-pass marketing phase has diminished.

Said Clasen: "We use door-to-door sales where it's appropriate, but we use the most efficient methods in our sales approach, and often that's not door-to-door. When we acquired our Group W systems we laid off nearly all the door-to-door sales people in those markets. In two or three systems we've brought some back in, but we rely more on direct mail and telemarketing."

Not only has the proportion of telemarketing in the marketing mix risen rapidly, but also the role has broadened. Clasen and most other executives pointed to the follow-up calls telemarketers make after installation or service visits as an essential part of the ongoing effort to maintain good relations with customers.

Art Lee

To Clasen and some other executives, this broad role is better left to system-level telemarketing operations. But Heritage has found that it can achieve important benefits for its smaller systems by using a national telemarketing center assigned an 800 number. Sales calls are made to non-subscribers as well as subscribers, who are pitched for service upgrades, but the national telemarketing group also is charged with customer service follow up. Jim Cownie said this unit has contributed to the company's reduction

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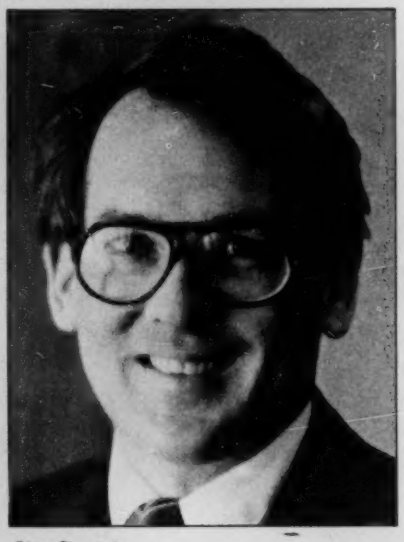
of churn.

Jones, too, has a national telemarketing group, which has been growing steadily since it was formed a year ago and soon will include 35 people near the Denver headquarters. The unit has been used by other MSOs, including Viacom and United, for special cam-



Jim Cownie

paigns, John Mathwick noted, and he hopes to see that use expand.

Up until now the group's efforts have focused on current subscribers, with special sales promotions rolling steadily through the systems, day in, day out, often in conjunction with newspaper and broadcast advertising campaigns that provide the center's 800 number. But Mathwick said there's a strong likelihood the group will be used to pursue non-subscribers as well, based on the successes Jones is seeing in a test project involving delinquent former customers in Augusta, Ga., whose debts have been written off by the system. Offering to allow them back on the system if they pay half the outstanding bill and a penalty fee as well, Jones has had a 20 percent rate of signup from the telemarketing effort, Mathwick said. But for non-subscriber contacts in general, he added, door-to-door is still the way to go.

As for the fastest growing weapon in the marketing arsenal, Cownie, echoing others, had this to say: "Broadcast TV is a terrific advertising vehicle. As markets consolidate and merge and co-ops develop, broadcast becomes more efficient, so cable operators are finally able to use the medium."

But tossing broadcast TV into the hopper along with radio, newspapers, telemarketing, direct mail and door-to-door significantly increases marketing expenses. In Cownie's opinion, the industry still has a long way to go before it is spending what it should to realize its potential. "Historically, the industry's share of marketing expenses as a percentage of revenue has been closer to 1 percent than to 5 percent," he said. "At Heritage we're on the way to 3 percent, and I want us to get to 4 or 5. A great case can be made that operators need to spend more on marketing now that urban construction is largely behind us."

Some budgets have more room for such growth than others. At Viacom, the drive to foster growth through marketing as opposed to acquisitions comes at a time when finances dictate that the goal be achieved through greater productivity as opposed to more spending. But John Goddard and his team have reason to believe they can get more bang from an already sizeable marketing outlay by following productivity precedents established in fast-growing systems like San Francisco and Nashville.

Last year's wave of direct mail campaigns, broadcast radio and television advertising as well as personal and phone contact with customers in San Francisco put the system over the 100,000 subscriber mark, and it was followed by more of the same this year, resulting in net subscriber growth of nearly 15,000 or 15 percent through October. Aggressive marketing in Nashville has produced similar results for the company, which began the year there with just under 73,000 subscribers and now is at 83,000.

As a result of such successes, budget stringency or not, some systems will be challenged with significant growth goals for the coming year. "We're allocating the marketing dollars to systems that will produce the greatest gains," said Ed Bennett, executive vice president of Viacom Cable. "But these people will be under no more pressure to make their goals than anyone else, because we try to allocate risk so that everybody is on an equal footing when we measure their performance against goals."

With its emphasis on growth through improved productivity, Viacom is not likely to be overly optimistic about its penetration potential. When John Goddard says he sees 70 percent penetration within reach for Viacom in five years, he is citing a target that operators were not all that confident about as recently as a year ago. But that was before anyone knew how the new post-deregulation pricing and repackaging strategies would play in the marketplace.

Art Lee, at TCI, said he spent six months of last year looking at the MSO's options, poring over market results from all corners of the company's empire, before recommending a pricing and packaging strategy that turned out to be the direction many other MSOs were taking—raising basic rates a couple of dollars or so while enhancing value by adding channels and lowering or eliminating charges for ancillary items, such as second drops, remotes and guides, and, at the same time, effecting some reduction in pay rates through lower multi-pay prices or even lower standalone pay rates.

With intensified marketing efforts supporting the introduction of such pricing and packaging, the MSOs have sailed through the year at higher growth rates than most of them budgeted for. And some of them already

Art Lee

are at or over the $14 basic rate Arthur Little predicted as the industry standard in 1990.

Most operators, if they're not already there, see $14 as a price that won't tweak subscriber value sensitivities. Bob Clasen, who said Comcast's basic rate averages $13 right now, commented, "Basic programming has been undervalued. We see the price going up a couple more dollars."

But Clasen and most others say the pricing trend will continue along the moderate lines established this year.

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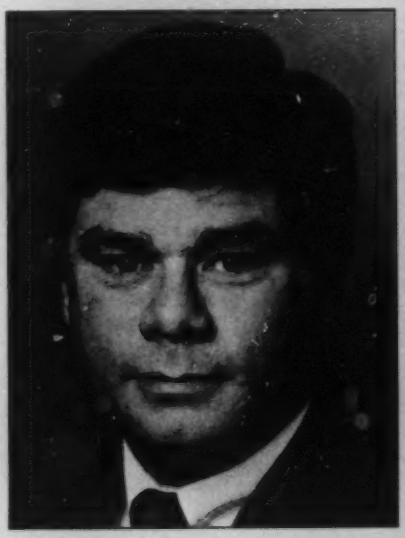
"Yes, there's more room for basic rates to go up," said ATC's Kevin Rorke. "But our strategy is a volume, not a price strategy. We're going to grow revenues by adding subscribers more than we are by raising prices. We'll continue to introduce moderate basic rate increases from time to time, and we'll probably continue to hold the line on pay prices."

Similar thinking has characterized Ed Bennett's pricing strategy of late. Assessing at the subscription trend over the past couple of years, Bennett noted that Viacom, like many other MSOs, was gaining much more from basic growth than from pay growth. To "protect" pay households in the rate adjustment process that kicked in with deregulation, Viacom added only 50 cents to pay households' overall rates in many systems while raising the price for basic-onlys by $1.50.

"We're walking away from a lot of money," Bennett said. "But we're communicating this to our customers so that they understand that there are price benefits associated with buying pay services."

The pricing strategy Bennett has mapped out for Nashville is typical of the approaches to price adjustment the MSOs have been making and will continue to make in 1988. In January Viacom will collapse the system's super basic tier, priced at $17.45, which will add ESPN, FNN, CNN, VH-1 and the Discovery Channel to the basic lineup. Basic will be priced at $14.95, representing a drop of $3 for those who were paying for super basic, and an increase of $2 for those who are on basic.



Kevin Rorke

"Biting the bullet costs you money," Bennett said. "With this kind of pricing we're moving into a reinvestment strategy."

With such pricing and packaging strategies showing no sign of slowing subscriber growth rates, John Goddard voices a widely held—if not the majority—view when he cites the 70 percent target as a reasonable five-year goal. Many companies' growth trends support that view.

At Continental, for example, Ted Livingston expects the company penetration rate to continue growing at the present pace of a point per quarter at least through next year, which would put the company over the 60 percent mark sometime in 1988. That would leave the 70 percent level within reach by late 1992 at a growth pace of only 2.5 points per year over the last four years of the five-year span. Other companies, including TCI and Com-

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cast, also expect to be at the 60 percent mark a year from now.

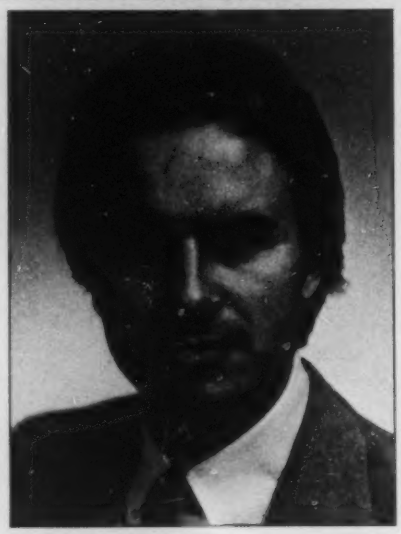
The MSOs believe they can sustain such strong growth rates as a result of several factors that are in play during the present boom and are expected to continue. Better product is one widely cited and obvious factor. Churn reduction, stemming from the customer service effort, is another factor, with plenty of room left for further reduction. Improved marketing and packaging are high on the list of important growth drives as well.

But in addition to this there is the force—call it cultural momentum—that is greater than the combined effects of all these other factors. Said Trygve Myhren: "Programmming gets better. Customer service gets better and better. There's no reason to think the growth rate will slow. In fact, the rate of increase in penetration will speed up. People are noticing cable like they never did before. They're realizing cable is supplying them with entertainment and information they can't get elsewhere. People talk about what they've seen on cable, and those that can't join the conversation because they don't have cable begin to wish they did.

"As we told the analysts on Wall Street this year," Myhren continued, "the climate has changed. Whereas, in the past, once you got systems up to 55 percent or so, every point above that was a tough struggle, that's no longer true. For the remaining group of people in the marketplace who don't have cable, it's getting much harder to resist."

Most cable operators would agree that the cultural momentum has shifted strongly in their favor. Said Clasen: "With cable in 50 percent of all television households, the industry has achieved the critical mass that ensures future growth. Everybody knows about cable now. As more and more kids grow up with it in their homes, a whole new generation is coming of age with cable TV as a given in their television viewing habits."

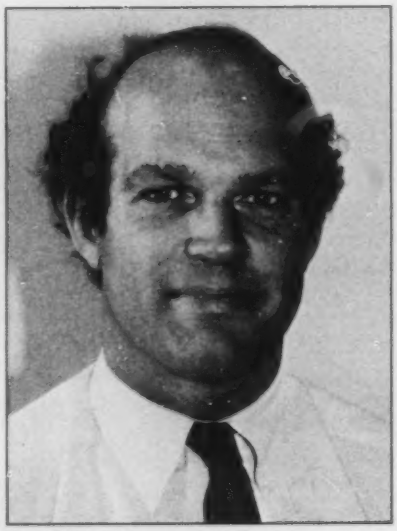
But that given carries a challenge, which is to prevent boredom and dissatisfaction from setting in by continually improving the product. For the cable industry this is much easier to do than for the broadcast networks, which must achieve innovation within the narrow confines of a single channel already loaded with successful programming that can't be supplanted without alienating a large share of the audience. Cable, with its wide channel array, is caught in no such rut.



Bob Clasen

The well-documented successes of pay-per-view, home shopping and ESPN's National Football League package leave no doubt that the cable industry has the ability to prevent the viewer's plate from growing cold by moving simultaneously on three fronts: Achieving ever more programming variety and improvements through technological innovation; opening new narrowcast windows; and developing broadcast-appeal programming that is exclusively cable's.

How vital is this three-pronged attack to sustaining the drive to 70 percent penetration? Judging from the chorus of calls from industry leaders for continuing programming improvements and the investments that they require, there's a sense that such things must be done. But there are differences over just how urgent the need is.



Ted Livingston

Clasen sees the growth curve continuing upward primarily as a result of the marketing and customer service improvements the industry is employing with the present base of programming. "Impulse pay-per-view will help," he said. "Home shopping helps. HDTV may help. But I don't see any special thing producing dramatic lift. It will be steady growth built on solid marketing that gets us to 65 or 70 percent penetration over the next five years."

Noted Kevin Rorke, who reported that ATC is on the verge of rolling out PPV to its 850,000 addressable customers: "Innovation and programming development are important, but you win the game with steady blocking and tackling."

Other executives, like Nimrod Kovacs, believe rapid growth beyond the 60 percent mark may not be a given of the industry's future without dramatic programming improvements, especially when it comes to the third area of development noted above—broadcast-type programming that is exclusive to cable. While Kovacs has high hopes for the impact of PPV, which United is introducing in all its markets, he believes there is a vast core—the "broadcast crowd"—of viewers who can only be lured to cable with better broadcast-network-style fare. Noting strides made by USA Network, Arts and Entertainment and Lifetime in this direction—"$100,000 per hour for cable-exclusive programming was unheard of in cable until now"—Kovacs nonetheless said the surface barely has been scratched, especially when broadcast network outlays are in the $1-million-per-hour range for some shows.

With just the NFL representing a $200-million bite, Kovacs said, achieving the level of programming essential to satisfying the "broadcast crowd" won't be easy. But he and others believe the commitment exists among a sufficient number of MSOs to ensure that what needs to be done will be.

Obviously, differences in emphasis notwithstanding, the industry consensus is that the lineup must and will get better. And this raises a key question bearing directly on the industry's agenda for the next two years and indirectly on the question raised at the outset of this article regarding the latitudes, from a political and legal standpoint, that operators have in exercising their market clout.

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Looming shakeout of programming networks

The issue is channel capacity. "We're flush," is how Ed Bennett described Viacom's channel space availability. Said Jones Intercable's John Mathwick: "Even our 54-channel systems are running out of space." Indeed, after all the construction, with newbuilds and upgrades implementing technological advances that permitted operators to expand systems to the two most common plateaus—36 and 54 channels—the industry finds itself flat out of shelf space to accommodate the new programming innovations essential to steady growth.

As a result, a strong majority of MSO executives interviewed for this article said that reviewing the performance of programming with an eye toward weeding out marginal performers is high on their lists of priorities for the year ahead.

Of course, with the freedoms accorded by a less restrictive must-carry rule, duplicate broadcast stations and those with low ratings are on the list of potential expendables, but so are low performing cable networks, including some pays.

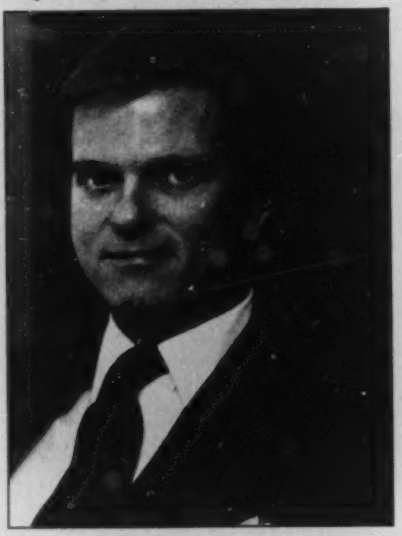
"I don't think we can go on adding channel capacity indefinitely," said Bennett. "We have to not be afraid to weed out weak performing sources of programming. One decision we have to make concerns the shopping services. This could be the first category that we do some cutting in, or we could decide to expand the category. Right now we have a commitment to CVN (Cable Value Network) and we're testing everybody else, using different services in different systems. So we don't know yet which way we're going to go. We have a tremendous economic incentive where home shopping is concerned, so it's not easy."

Adding to the incentive to open up channel space, Bennett noted, is the approach of HDTV, which may be "bandwidth greedy." And pay-per-view adds another, even nearer-term element to the mounting pressure to find channel space. Most MSOs now see PPV as an important part of their future programming mix, and virtually all of those that do believe PPV will require at least two channels to be effective.

"There are going to have to be some tough decisions made by the cable industry," said Bob Clasen, "not necessarily in 1988, but definitely in 1989, when a lot of contracts expire." Which means next year will be a time of systematic scrutiny of programming performance.

At United, Nimrod Kovacs and his team are developing a complex performance model to assist them in evaluating their channel lineups. "We need to learn from the broadcast networks," he said. "If shows don't cut it in the ratings, they take them off."

Kovacs, who said he spends most of his time these days on programming issues, including the question of investments in new programming, is seeking to quantify each channel's contribution



Ed Bennett

by determining the marginal cash flow attributable to each programming source in every United system. Using this model, United will be able to review each system lineup when considering adding a new channel, and weigh what it expects from the new service against what it is getting from existing services.

Getting aggressive about exclusivity

While a widescale weeding-out process appears likely and could leave some programmers and a few broadcast stations out in the cold, the undertaking on its face doesn't seem likely to cause any serious political difficulty. But there is another element to the emerging MSO agenda that could interface with the pruning process to provide concentration-issue advocates more grist for their cause.

"I've been saying it for the last three years," said Bob Clasen. "The program suppliers I've made successful in my markets, the ones who wouldn't have a business if we hadn't gone out and invested in the wires and personnel necessary to open a market to them, I should have the right to be the exclusive provider of in those markets. Comcast made HBO in Flint, Mich., and Comcast should be able to capitalize on that effort without someone else who made no such effort coming in and competing against us with that same programming."

Said Jim Cownie: "I think that to the extent that the cable industry's main mission is to provide diversity of programming to the American public, the best way to ensure that the industry will serve that mandate is to allow the cable industry to invest in programming that will benefit it with an adequate return on that investment. If we're denied the right to negotiate terms that will provide reasonable assurance of return on successful ventures, the American public will be short-changed."

Trygve Myhren, who preceded Cownie as NCTA chairman, agrees. "Exclusivity is something you want on all the product you've spent your lifeblood on," he commented. "I think most people today feel at least a certain amount of exclusivity is acceptable from a legal standpoint. The issue isn't a legal one. It's a political issue."

In a conversation earlier this year, NCTA President James Mooney strongly defended the industry's right to pursue exclusivity. Asked whether such efforts would bolster contentions that cable operators are in a monopolistic position, Mooney said: "To use the term monopoly... is to conjure up visions of something untoward going on. The local NBC affiliate has a monopoly in the delivery of NBC network programming. So what? As long as, in economic terms, there are generic substitutes available to people, whether programmers or advertisers, who want to get a message out, and to people who are the viewers, the concept of monopoly is without relevance.

"I said in a speech two years ago," Mooney continued, "that cable was going increasingly to be entering arguments over issues with an antitrust flavor to them as a consequence of the horizontal ownership patterns that were developing and as a consequence of a certain amount of vertical integration that appeared likely to occur.

"The cable industry badly needs quality programming, and the people with the greatest vested interest in seeing programming improve are the

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cable operators. This is a socially useful phenomenon. The public is better served in getting better quality programming for what it pays cable operators.

'But one of the things that happens as operators seek ways to ensure development of better programs is that they encounter arguments from their competitors that are tinged with antitrust issues. This isn't something to gnash our teeth and tear our hair out over. It's a consequence of living in a competitive world," Mooney said.

As operators look at the potential for intensified competition from overbuilds, including the possibility of widescale introduction by telephone companies of broadband fiber networks, they are thinking about securing exclusivity not only over new programs on a piecemeal basis—as in the deal worked out with ESPN in exchange for backing Sunday NEL football—but also over existing networks as well. Negotiations along these lines have begun in earnest with some programmers, but so far operators have encountered stiff resistance, largely on legal grounds.

Said Clasen: "We have exclusive contracts with a couple of our suppliers. Our attorneys tell us that they can give us those exclusive rights. But we haven't been widely successful so far in achieving such arrangements with most of our suppliers, because the lawyers for the programmers tend to be more conservative on the issue."

Richard Berman, a member of the New York law firm of LeBoeuf, Lamb, Leiby & MacRae, whose client base is comprised of many television entertainment interests, including cable operators and programmers, has no question as to the legality of exclusivity.

"It's an accepted and well-known concept in the entertainment industry,"he said, "whether it's in arrangements between broadcast networks and their affiliates, or in motion picture studio policies respecting distribution windows for their product, or recording industry contracts with talent. We haven't looked at the question in depth yet, but I see nothing that stands in the way of operators securing their business through exclusive arrangements with their suppliers, so long as such contracts are negotiated individually by each operator."

Attorney Paul Glist, with Cole, Raywid, Braverman in Washington, concurs. "Exclusivity will probably be challenged," he said, "but I think we will see the industry free to move toward exclusive arrangements with their suppliers. I find it ironic that cable is accused of parasitic behavior by those who oppose its latitudes under syndicated exclusivity and the compulsory license and, on the other hand, when it creates and seeks ways to perpetuate its own development of programming, is accused of monopolistic practices by the same people. Someone has decided we're damned if we do and damned if we don't and is trying to shape the public policy arguments accordingly."

Sensitivity to the antitrust issue and the political environment makes Goddard somewhat cautious on the question. "I think it may be possible for companies to negotiate and pay a premium for exclusivity," he said. "Ultimately the decision has to be made by the programmers as to whether their futures are best served by supporting the industry that gave them birth or whether they're better served by undermining that large base of subscribership by competing with themselves. It's an economic question that will be decided by what best serves programmers' interests."

Nimrod Kovacs

But Goddard added that the industry might be better served and on safer ground if it limits exclusive arrangements to new programming in which operators have a direct interest.

While many operators expect to see an intensification of overbuild activity in the year ahead, overbuilding doesn't appear to be contributing to interest in program exclusivity. Myhren, noting that ATC has seen some overbuild competition in some of its markets, said: "Our penetration growth is better in those systems than it's ever been. The presence of another operator just makes us go after the business more aggressively. We'll see more overbuilds, but you know who's going to come out on top."

But Myhren also said that obtaining exclusive arrangements with at least some program suppliers is "very important" to the future of the business. And many other operators concur.

Rich MacDonald, an analyst with First Boston Corp., goes even further. Asked if exclusive arrangements with programmers are vital to the MSOs' future, he replied "There's no question about it."

But Jim Cownie comes at the question from a different perspective. "There are barriers to telcos providing cable services," he noted. "And there are barriers to building networks that would negatively affect telephone rates. But the telephone companies have been very persuasive in presenting their financial views to the PUCs. If they were able to convince the PUCs or the Congress to allow them to build fiber optic networks, there is no regulatory barrier to their leasing excess capacity to providers of cable services. That's the more realistic source of concern." Asked whether this means there may be a need for legislation to block telcos, Cownie replied "Yes."

But there's as much risk in depending on winning legislative protection as there is in hoping that existing barriers will prevent telcos from proceeding with their fiber networking plans. To many operators, programming exclusivity is the surer route to long-term security against the potential of monopoly-subsidized competition. Just how safe a bet that course may be could be decided by the courts in the not-to-distant future.

With many programming contracts coming up for renewal in the next year or two and operators looking at ways to open up limited shelf space for new product, the MSOs are in a strong position to bargain for exclusivity. And there is where pursuit of that course could be problematic.

A leading cable attorney, who declined to speak for attribution, staunchly defended the operators' right to obtain exclusive contracts. "The only time there is a real concern is when there is a barrier to entry arising out of concerted, joint action," the attorney said. "In cable, programmers have abundant opportunity for entry, because there are so many operators." However, asked whether an illegal barrier would arise if a cable operator, as the sole outlet for a programmer in a given market, refused to carry the service without obtaining an exclusive contract, the attorney replied, 'I can't really answer that question." ■

Across the pond

Rapidly changing European TV offers profits, pitfalls for Yanks

By Fred Dawson

Are U.S. cable interests overlooking significant opportunities to participate in and influence the rapidly changing television frontiers of Europe?

Wide-ranging discussions with television executives on both sides of the Atlantic as well as visits to three important conclaves in Europe lead one to the conclusion that many companies may have jumped the gun in sizing up Europe up as a lost cause.

While cable programmers are beginning to scout the terrain in earnest, most operators are content to let others sweat out the immense hassles that go with exploiting what many view as a hopelessly snarled situation frought with high risk and a return-on-investment horizon that can only be dimly seen.

But events are unfolding rapidly. Anyone basing their views on where things stood a couple of years ago owes it to themselves to take another look. Europe remains a daunting prospect for even the most ambitious companies, but that assessment applies to the players there as well as stateside companies. As a result, television entrepreneurs throughout Europe are coming to the understanding that they will be better off drawing on the wherewithall and experience of the Americans than they will be if they shut the Yanks out.

That realization coincides with continuing relaxation of the regulatory barriers that for so long stood in the way of broadcast and cable television development. Great Britain, where cultural barriers—including those of the entrenched television community—are the chief hurdles now, has privatized much of broadcast and all of cable and telecommunications. France has opened the way to commercial television, including advertiser-supported and subscription service. West Germany and the Scandinavian countries are doing likewise.

This recent flurry of activity has seen new cable franchises granted in Britain, France, Germany and other countries and programmers rushing to form co-ventures to serve an anticipated demand for far more television than the peoples of Europe have ever seen.

Three years ago the only pan-European satellite channel of any consequence was Ruport Murdoch's Sky Channel. Today there are upwards of 20, and more are on the way in anticipation of space opening up with the launch of the Luxembourg-based, medium-power K-band satellite, ASTRA.

First of a five-part series

But if all the activity points to a day when television will be radically different from anything Europe has known, right now the appearance of things is very much along the lines of what always has been. Like a giant rocket just roaring off the pad, the movement is barely discernable. To a traveler tuning into television in Europe right now, there are a few changes from years past—more American shows with familiar faces speaking strange languages, advertising with quaint graphics and vaudeville-style punchlines.

The numbers tell the story: Out of 122 million television households, only 12 million are served by cable and another 30 million are on SMATV systems. Only a handful of the cable systems carry more than 12 channels. Cable revenues for 1987 are expected to be somewhere between $500 million and $700 million, on a growth curve that the British research firm CIT Research says is rising at an annual rate of 4 percent.

The two satellite services with the highest penetration, Britain's Sky Channel and Superchannel, both advertiser supported, stand at 9.7 million and 8.6 million, respectively. The next highest penetration among Pan-European channels is 2.6 million, held by West Germany's SAT-1 ad-supported service. Only one pay service, Britain's Arts Channel, has topped the million subscriber mark.

Obviously, things have a long way to go before there are truly noticeable differences. But behind the hype being generated by a vocal few who are pioneering new television development there are solid grounds for expecting multiple channel television, including pay, narrowcast and American-style broadcast, to take root. If they do, American concerns who have learned the ropes and endured the red tape will be in a fine position not only to reap results in Europe but also to ride the wave of global television expansion that appears sure to follow.

Viacom Cable, one of five U.S. MSOs actively pursuing opportunities in Europe, recently sent Executive Vice President Ed Bennett on a scouting expedition to the U.K. and France. Bennett returned with this view of the situation:

"There is a lot of potential for us over the long term, primarily as a program supplier but also as an operations management and consulting concern. The two positions can benefit each other very well. Our arrangement as a managerial consultant with British Cable Services in Oxford, England, led the way to the MTV deal with Robert Maxwell."

That venture with the British television magnate has just launched MTV Europe, a significantly altered version of the U.S. cable service featuring occassional clips from foreign-language hits and a broader range of musical styles.

MTV is the latest U.S. cable programmer to get involved in Europe. HBO and Showtime are in a partnership with 20th Century Fox, Columbia Pictures, British Cable Services and British Telecom, the U.K. telecommunications giant, Premiere, a pay service launched last year and now serving 85,000 homes. And several services, including USA Network, CBN, HBO and Showtime are in co-production

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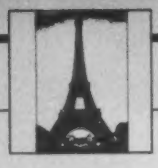

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deals with European producers and are marketing some of their home-grown product for syndication as well.

But the most visible American cable programmer in Europe to date has been Ted Turner. He launched CNN in Europe two years ago and was in Cannes in October shopping for programming to use on his various outlets, including the planned TNT basic channel, which he hopes to launch in the U.S. next year.

As for operators, in addition to Viacom, the players are Comcast, United, Cablevision Systems Development and Jones Intercable, all of whom, so far, are doing the large share of their business as management consultants or partners in management in the U.K.

To determine just what the opportunities and risks are for American cable interests in Europe requires a complex analysis weighing the nation-by-nation cultural, business and regulatory developments in the context of the larger Pan-European community. At the national level, this means gaining a familiarity with the history of television in all its forms, learning who the players are, understanding their strategies, reviewing the program supply situation and assessing the cultural and regulatory environments.

For anyone weighing the merits against the effort, a monumental amount of work and investment lies ahead, not unlike the scale of effort that operators have put into U.S. cable over the past 10 years. Indeed, the optimistic view of European cable is that it is where the American industry was 10 years ago. There are some who would put the comparison at closer to 20 years, and they have a good case to make.

CIT Research says the present growth rate in cable would put Europe at the 16 percent penetration mark nine years from now, with capital spending hitting levels of $1 billion annually by 1990. That would be more like U.S. cable 10 years ago.

In Britain there were false starts and disappointments following the Thatcher Government's move to encourage private development of television four years ago. But, Jon Davey, director general of the U.K. Cable Authority, makes a strong case against reading too much into that experience. One reason things are beginning to move rapidly in Britain, Davey said at a recent symposium at Columbia University in New York, is the nature of the franchising process itself.

Ten new broadband systems are now under construction, Davey said, with all of them in the 20- to 30-channel range and averaging 110,000 households per market. Another six franchises of similar size are now in the application review state.

As for France, things are even slower getting started, but the pace promises to be rapid and widespread because the complete cabling of France has become a matter of government fiat. France is especially significant as a touchstone for what lies ahead in European television and communications, because its decision to go into partnership with the private sector in wiring the country reflects a desire to achieve the necessary replacement of antiquated telecommunications plant without emptying government coffers.

With the next issue of *CableVision*, we will launch into the nation-by-nation review of where things stand, starting with these two very different countries. ■

European Satellite Networks

	U.S. participants	Satellite	Households
Basic networks			
France			
TV-5		Eutelsat 1-F1	3,600,000
Germany			
Elms Plus		Intelsat V-F12	1,740,000
Eureka		Intelsat V-F12	1,118,000
Musicbox		Intelsat V-F12	1,790,000
SAT-1		Eutelsat 1-F1	2,610,000
3-Sat		Eutelsat 1-F1	1,850,000
Italy			
RAI		Eutelsat 1-F1	1,500,000
Luxembourg			
RTL-Plus		Eutelsat 1-F1	2,200,000
Norway			
New World		Eutelsat 1-F1	100,000
U.K.			
MTV Europe		Intelsat VA-F11	2,000,000
Screensport	ESPN, ABC	Intelsat VA-F11	500,000
Sky Channel		Eutelsat 1-F1	9,700,000
Super Channel		Eutelsat 1-F1	8,600,000
U.S.			
CNN	TBS	Intelsat VA-F11	250,000
Worldnet	U.S. Information	Eutelsat 1-F1	800,000
Pay Networks (*indicates ad support; only satellite networks are included)			
France			
Canal +		(over the air, subscription TV)	1,582,000
Nederlands			
FilmNet		Eutelsat 1-F1	200,000
Switzerland			
Teleclub		Eutelsat 1-F1	30,000
U.K.			
Arts Channel		Intelsat VA-F11	1,100,000
Children's Channel		Intelsat VA-F11	110,000
Lifestyle		Intelsat VA-F11	110,000
Premiere	20th Century Fox Columbia Pictures HBO, Showtime	Intelsat VA-F11	85,000
Videotape delivered pay networks			
Finland			
Videokanava			23,000
Norway			
Janco-Vision			140,000
U.K.			
Bravo	Cablevision U.K.		5,000
Home Video Channel	20th Century Fox, Columbia Pictures, HBO, Showtime		

Limited partnerships seen rebounding as investors search out safe havens

Cable's long-term stability fits the bill, but MLPs still are considered expensive

By Virginia Munger Kahn

Despite a noticeable falloff in sales following October's stock market crash, cable executives and investment bankers involved in raising funds through the limited partnership market are anticipating an uptick in activity as investors seek safe havens for their money.

"We felt good about (the market) before the crash," says Gary Blemaster, managing director of Kidder, Peabody & Co., and now "post-crash we feel much better. Investors are reallocating their money, and some of that money will come the way of cable limited partnerships." Kidder Peabody currently is managing limited partnership offerings for Cencom Cable and HBO.

Investment advisers and others involved in the market say that while cable limited partnerships have performed well in recent years, sellers of limited partnership interests this summer had some difficulty persuading investors to put money in these more conservative vehicles when investors could realize returns of 30 percent and more in the stock market. Now that the market has crashed and remains volatile, many advisers say investors are looking for long-term deals with stability, and cable partnerships should fit the bill perfectly.

Not only is the industry viewed as fairly stable with steady cash flows that are recession-resistant, but also limited partnerships do not *appear* volatile since they do not trade like stocks. "People want an investment they don't have to watch every day. They still want to play, but they don't want to pay," says an account executive with a major New York securities firm.

"A big advantage of the partnership market is that it is non-tradeable," notes an investment banker. "It is not subject to the same volatility as the stock market," and because it is a longer-term vehicle, it is not subject to the same vagaries in pricing as publicly traded vehicles, he says.

In addition, the industry has built up an excellent track record in recent years, providing investors with good returns. According to two leading analysts of the limited partnership market, cable has outperformed real estate, oil and gas and equipment leasing partnerships hands down. Bill Brennan, publisher of Brennan Reports, says Jones Intercable has been able to make some of its investors five or six times their initial investment. "They provided a 742 percent return on one fund," he notes.

Says Dennis Gurtz, who heads up his own investment advisory firm, Dennis Gurtz & Associates, "Cable still is my favorite... over the last four years. Not only are you getting cash flow, but also the value (of the partnership overall) is up because of the megatrend in the systems market."

Public partnership sales summary

($ in millions)

	Third quarter			Cummulative		
	1987	1986	% change	1987	1986	% change
Real estate	$1,746.4	$1,490.1	17.2 %	$5,878.4	$5,757.7	2.1 %
Oil and Gas	344.1	593.7	-42.0 %	971.1	959.1	1.3 %
Equipment leasing	376.0	197.2	90.7 %	904.6	417.8	116.5 %
Cable TV	71.3	95.2	-25.1 %	306.6	185.4	65.4 %
Films & Media	0.0	64.0	-100 %	31.1	270.1	-88.5 %
Totals	$2,537.8	$2,440.2	—	$8,091.8	$7,590.1	—

Source: The Stanger Report

Cable partnership market of publicly registered offerings

# of Partnerships	Amount offered 1987	1986	% change
14	$985.0	$935.0	5.3%

Source: The Stanger Report

Past performance

The past performance of the industry and the allure cable partnerships have held for investors have resulted, not surprisingly, in record sales of cable partnerships. According to Robert Stanger & Co., during the first nine months of this year cable limited partnership sales totalled $306.6 million, a 65 percent increase over the similar period last year. A decline in partnership sales during the third

See **LPs**, *page 128*

LPs, *from page 127*

quarter to $71.3 million from $95.2 million in 1986 may be attributed to the pickup in activity late last year in anticipation of impending tax reform. Overall, limited partnership sales reached a record $3.7 billion during the third quarter of 1987.

At this time, nine cable partnerships have been registered with the SEC. Most of the offering companies are familiar names in the partnership market, including Jones Intercable, which is on its 14th fund; Cencom, which has raised $150 million in four years; Enstar, which has just registered its sixth offering; American Cable TV Investors, an Integrated Resources partnership; Prime Cable; and Northland Cable properties.

According to Bob Graff, president and chief executive officer of Enstar Communications, the climate for sales of cable limited partnerships is good now and should be "easier" in the future not only as a result of the volatility in the stock market but also as a result of the track record companies like his have built up. "We've made 47 distributions and sold about one-third of the properties in our first fund, which closed in 1984," he says. "We've returned 60 cents on the dollar." Such a cash return is viewed as healthy considering the investor still has an interest in the partnership.

Current distributions are key to luring investors to cable funds these days, note investment bankers and analysts alike. When a limited partnership is structured, the company can offer investors one of three things: a cash distribution, capital appreciation, or a pass-through on tax benefits. "We think investors today are looking for cash distribution," notes one executive with a leading investment banking firm.

Says Brennan, "The more immediate the cash returns, the better. It's difficult to sell when the return is in the future."

Cable television, with its tax-sheltered, steady cash flows appears to be a good vehicle for such distributions. Moreover, the more interest rates fall, the easier it will be for companies to make those distributions. In many cases, cable companies are offering investors returns of 6 to 8 percent the first year, 8 to 10 percent the second year, 10 to 12 percent the third year, and so on until an overall return rate of between 11 and 14 percent is achieved.

'We felt good about (the market) before the crash,' and now 'post-crash we feel much better. Investors are reallocating their money, and some of that money will come the way of cable limited partnerships.'

—Gary Blemaster
Kidder, Peabody & Co.

This Announcement Appears As a Matter of Record Only.

October 1987

Cablevision of Texas Limited Partnerships

$9,048,000 Enhanced Yield Senior Secured Revolving and Term Notes

1,487,000 Subordinated Revolving and Term Notes

The Undersigned Structured This Financing and Arranged for the Private Placement of the Notes.

Cable Investments, Inc.
8400 East Prentice Avenue, Suite 1115
Englewood, Colorado 80111
(303) 793-3344

This Announcement Appears As a Matter of Record Only

October 1987

SOLD

White Water Cable Vision, Inc.

The Cable System Serving Subscribers in the Communities of Leesburg, Vida, Blue River and McKenzie Bridge, Oregon.

Has Been Acquired By:

Falcon Cable Systems Company

The Undersigned Represented the Seller.

Cable Investments, Inc.
8400 East Prentice Avenue, Suite 1115
Englewood, Colorado 80111
(303) 793-3344

Pressures on returns

Putting pressure on companies' ability to provide such returns, however, have been steadily escalating prices in the systems market. Gurtz and others warn that the types of returns cable partnerships offered in recent years may well be diminished this year and in the future because of the record prices being asked in the systems market. In addition, if system prices begin to flatten, investors who recently have moved into the limited partnership market could face slower appreciation in value of their partnership interests.

That trend toward rapidly escalating system prices has forced many cable syndicators to term their partnerships "income plus growth" funds. In other words, the return will be comprised both of current yield and a piece of the backend of the partnership when the systems are sold. At one point, says Bob Graff, he could offer investors initial distributions of 11 percent. But considering the acquisitions the company is looking at now, he says, those distributions will be more like 5 percent or 6 percent in the early years.

As a result, the people who are selling Graff's and other cable partnerships are talking more and more about growth. "It's just like real estate. In the late '70s, as prices went up, the benefits came down. I could see that happening in cable," he says, "but I didn't think it would happen so fast." Jim Carlson, vice president at Jones Intercable, notes that his company's partnerships also are sold extensively as "growth" funds, rather than income funds.

With uncertainty among investors about maintaining gains similar to those posted historically, Graff says the real lure to cable these days should be its safety. "Cable for cash is safer than owning real estate," Graff contends. That type of statement "rocks most financial planners," he admits, but "I don't know of anyone who's got a wire going into the house who's not made money," he says.

That is not a sentiment shared by all industry analysts. Brennan predicts that investors will be lured to more traditional, conservative investments like real estate in the future. Furman Nettles, vice president at Robert Stanger & Co., says hard asset areas—like oil and gas income programs, where the properties are already producing; unleveraged real estate programs; and some R&D programs—are doing the best in today's uncertain market. "I'm not sure cable is viewed (as a hard asset)," he notes.

One area that is expected to be hit hard by the market's continued volatility is cable master limited partnerships. Already considered an expensive

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Jones Intercable has been able to make some of its investors five or six times their initial investment. 'They provided a 742 percent return on one fund.'

—Bill Brennan
Brennan Reports

This Announcement Appears As a Matter of Record Only.

October 1987

Decatur Cable TV, Inc.

$5,500,000

Senior Secured Term Facility

The Undersigned Placed This Note and Assisted Management in a Stockholder Buyout of Jacksboro Cable TV, Inc. and the Merger of Jacksboro Cable TV into Decatur Cable TV, Inc.

CableInvestments, Inc.
8400 East Prentice Avenue, Suite 1115
Englewood, Colorado 80111
(303) 793-3344

This Announcement Appears As a Matter of Record Only.

September 1987

SOLD

Universal Telecommunications, Inc.

The Cable System Serving Subscribers Located in Springtown, Texas.

Has Been Acquired By:

Decatur Cable TV, Inc.

The Undersigned Represented the Seller.

CableInvestments, Inc.
8400 East Prentice Avenue, Suite 1115
Englewood, Colorado 80111
(303) 793-3344

LP's, *from page 129*

way to raise capital in the cable television industry, the continued devaluation of stocks in the public markets and concern that MLPs may be taxed as corporations rather than limited partnerships will make raising money in this arena particularly difficult in the future.

MLPs on a rollercoaster

Not only do MLPs move up and down with the market, and therefore lose the primary allure of non-trading limited partnerships, but also most of them are trading significantly below their offering prices. "You can't fool everyone all the time," quips one investment banker. At this point the MLP market is dead, he says.

> 'Even though our unit price might be off 10-15 percent, as long as the price of the property could give a return, we'd do it.'
>
> —Ron Voss
> Galaxy Cablevision

Within the past 12 months, three cable MLPs have come on the market: Jones Intercable Investors LP, Galaxy Cablevision LP and Falcon Cable Systems Co. These funds are expected to be grandfathered in any new tax legislation that comes out of Congress.

Despite the generally negative assessments of the MLP market, Ron Voss, vice president for corporate development at Galaxy Cablevision, says he would go back to the MLP market again if the company saw an acquisition whose cost could still provide an adequate return to investors. "Even though our unit price might be off 10-15 percent," he says, "as long as the price of the property could give a return, we'd do it."

Voss notes that the downturn in stock prices does not affect Galaxy's ability to make the distributions it promised investors in its prospectus, and that the MLP still should be viewed as a long-term investment. Over the long-term, the company is offering a 6.5 percent tax deferred return. "If we went back into the marketplace, we would have no problem raising equity."

In general, investment advisers and the companies involved in the limited partnership market remain optimistic about their prospects for raising capital in this market, especially after the events of mid-October. "Clearly, there is a window for raising money now," says Gary Blemaster.

On the investment community side, also, there is continued attraction to cable partnerships not only in relation to other investments but other partnerships as well. "Cable probably will still do the best, even if it can't top the gains of the last five years," says Dennis Gurtz. "It should do better than real estate, which is its main competition."

"We feel cable is predictable and that it still has good growth," says an investment banker. "We feel that kind of industry makes a good investment for the retail investor." ■

This notice appears as a matter of record only.
November, 1987

ACI MISSISSIPPI, INC.

has acquired a cable system from

TELEPHONE & DATA SYSTEMS, INC.

serving the community of
Calhoun City, Mississippi.

The undersigned initiated this transaction,
served as financial advisor to ACI Mississippi, Inc.
and assisted in the negotiations.

WALLER CAPITAL CORPORATION

Andrew J. Armstrong, Jr.
Senior Vice President

45 Rockefeller Plaza
Suite 2520
New York, NY 10111
(212) 307-7201

Subscriber Count

Non-satellite-fed national services

ACTS Satellite Network	325	6,000,000
Alternate View Network	242	2,800,000
America's Value Network	212	4,150,000
Arts & Entertainment (A&E)	2,400	27,000,000
Black Entertainment Television (BET)	912	17,000,000
Cable News Network (CNN)	11,423	41,642,000
Cable Value Network	150	19,000,000
CBN Cable Network	7,710	36,708,000
C-SPAN	2,700	32,500,000
C-SPAN II	485	12,500,000
Consumer Discount Network	66	550,000
Country Music Television	520	6,750,000
The Discovery Channel	2,500	25,598,000
ESPN	17,000	43,700,000
Eternal Word Television Network (EWTN)	387	7,100,000
The Fashion Channel	500	6,500,000
Financial News Network (FNN)	1,690	26,700,000
FNN/Score	1,080	19,800,000
FNN/TelShop	700	11,000,000
GalaVision	293	900,000
Gospel Music Network	31	744,447
Headline News	3,452	28,352,000
Hit Video USA	160	2,100,000
Home Shopping Network	1,108	15,200,000
Home Shopping Network 2	280	5,800,000
The Inspirational Network	1,100	10,700,000
International Television Network	56	7,868,900
The Learning Channel	930	11,000,000
Liberty Broadcasting Network	39	1,049,218
Lifetime	3,500	34,000,000
The Motivation Network	24	450,000
Movietime	56	2,000,000
Music Television (MTV)	4,340	37,100,000
The Nashville Network	5,200	35,000,000
National Jewish Television (NJTV)	295	6,800,000
National Shopping Club	65	1,500,000
New Age Jazz TV	200	300,000
Nick At Night	3,862	31,000,000
Nickelodeon	5,430	35,800,000
The Nostalgia Channel	150	1,400,000
QVC Network	731	10,394,159
Shop Television Network	60	2,400,000
Silent Network	300	9,500,000
Tempo Television	650	12,500,000
The Travel Channel	190	5,550,000
Trinity Broadcasting Network	523	7,037,000
USA Network	9,200	39,000,000
Video Hits One (VH-1)	1,697	20,800,000
Video Shopping Mall	600	14,300,000
The Weather Channel	2,750	28,151,540
WGN-TV	10,422	22,481,204
WOR-TV	2,270	9,627,636
WPIX-TV	396	2,470,564
WTBS-TV	12,399	41,642,000

Pay services

American Exxxtasy	60	40,000
American Movie Classics	1,200	7,500,000
Bravo	350	700,000
Cinemax	3,650	4,100,000
The Disney Channel	4,300	3,175,000
Festival	N/A	N/A
Home Box Office (HBO)	6,700	15,000,000
The Movie Channel	3,250	3,250,000
The Playboy Channel	600	550,000
Showtime	3,200	5,400,000

Audio services

Cable Radio Network	39	1,300,000
KKGO Super Jazz	16	146,533
Moody Bible Institute	62	937,611
Satellite Radio Network	251	740,000
Seeburg Lifestyle Music	142	2,576,838
Seeburg Lifestyle Adult Contemporary	26	854,390
Tempo Sound	107	350,000
WFMT Chicago	182	1,399,125

Text services

AP News Cable	185	2,500,000
AP Business Plus	54	1,400,000
AP News Plus	75	2,100,000
Cable SportsTracker	40	2,353,322
DBC/MarketWatch	240	5,000,000
Electronic Program Guide (EPG)	315	7,109,080
EPG Jr.	145	157,330
Genesis Cable Storytime	37	1,505,000
Reuters News View	127	2,437,000
TV Decisions	177	6,818,487
UPI Data Cable	450	4,000,000
X*Press	60	1,000
X*Press Exchange	200	1,000,006

Non-satellite-fed national services

Bicycled services	Affiliates	Subscribers
Cable Video Entertainment	170	6,500,000
Fuji Network	3	12,000
Nippon Golden Network	3	12,780
Telaction	N/A	N/A
Vector Consumer News	5	200,000
Vector Consumer Shopping Guide	9	325,000

Regional entertainment services

Basic services

	Affiliates	Subscribers
Atlanta Interfaith	7	160,000
Bay Area Religious Channel (BARC)	6	113,000
Buffalo Sabres Hockey	9	400,000
Cable TV Network of New Jersey	34	1,369,829
The Ecumenical Channel	12	170,000
KTVT	234	1,891,170
Life Newsvision	35	50,000
Madison Square Garden	92	2,092,434
Meadows Racing Network	15	600,000
News 12 Long Island	7	500,000
Prime Cable	8	344,350
Prime Ticket	70	2,000,000
SportsVision (Chicago)	47	1,025,200

Pay services

Dodgervision	44	935,000
Giantsvision	38	1,000,000
Home Sports Entertainment—Houston/Dallas	140	450,000
Home Team Sports	100	748,000
New England Sports Network	157	213,171
PRISM-Philadelphia	86	396,578
Pro-Am Sports	140	301,000
SportsChannel (Florida)	2	45,000
SportsChannel (New England)	142	730,000
SportsChannel (New York)	77	842,000
Z Channel	21	84,000

Note: Figures for affiliate and subscriber counts will be updated quarterly unless information is provided by the service. Send information to: CableVision, Attention: Candace Drake, Cable Stats, 432 Park Avenue South, Suite 1109, New York, NY 10016.
N/A denotes information not available.
TBA denotes to be announced.

Announced services

Satellite-fed services	Expected launch
Americana Network	2nd Quarter 1988
El Canal Musical	4th Quarter 1987
International Cablecasting's Cable Radio Network	1st Quarter 1988
Pay-Per-View Network	12/87
Pay-Per-View Partners	4th Quarter 1987
The Preview Network	4th Quarter 1987
Teleworld Network Television	5/88
Tunnelvision	11/87
Tuxxedo Network	12/87
World Travel Network	4th Quarter 1987
You TV	1/88